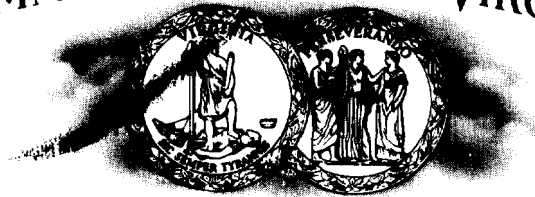


# COMMONWEALTH OF VIRGINIA



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May 6, 1996

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Office of the Secretary  
Federal Communications Commission  
1919 M Street, N.W. Room 222  
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL

RE: Federal-State Joint Board on  
Universal Service  
CC Docket No. 96-45

Dear Sir:

Enclosed please find reply comments of the Virginia State Corporation Commission Staff in the above referenced case.

Very truly yours,

Edward C. Addison  
Director

ECA:js  
Enclosure

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of

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Federal-State Joint Board on

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Universal Service

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CC Docket No. 96-45

REPLY COMMENTS OF THE  
VIRGINIA STATE CORPORATION COMMISSION STAFF

Virginia State Corporation Commission  
Division of Communications  
1300 East Main Street - 9th floor  
P. O. Box 1197  
Richmond, VA 23218

May 6, 1996

Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, D.C. 20554

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In the Matter of

Federal-State Joint Board on  
Universal Service

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CC Docket No. 96-45

**REPLY COMMENTS OF THE  
VIRGINIA STATE CORPORATION COMMISSION STAFF**

**1. INTRODUCTION**

The Virginia State Corporation Commission (VSCC) Staff Division of Communications respectfully submits these Reply Comments in response to the FCC's Notice of Proposed Rulemaking in this Docket, released March 8, 1996 (Notice). We have reviewed as many parties' Initial Comments as possible and offer these Reply Comments to assist the Joint Board and the FCC in the difficult and important considerations required by this Docket.

**2. AFFORDABILITY**

The VSCC recently found (Final Order, Case No. PUC930036; October 18, 1994) that basic local rates in Virginia are affordable as offered by the three largest Local Exchange Carriers (LECs) in Virginia, which serve about 98% of the network access lines. The finding was strongly influenced by the residential penetration rates at that time; therefore, the existing level of the federal Subscriber Line Charge (SLC) was implicitly included in the finding. These LECs have not increased their basic local rates since the VSCC finding, so we may assume they are still affordable, including the SLC.

Any proposed increases in basic local rates or the SLC paid by Virginia customers naturally moves them into an area where their affordability is in doubt and must be reevaluated. We hope the FCC can implement its Universal Service plans without any increase in the SLC.

The high level of residential penetration in Virginia has been favorably affected by the Lifeline and Link-Up America plans, along with the efforts of Virginia LECs who offer many good low-cost options for local service. We believe the Lifeline and Link-Up America plans are an important part of maintaining high residential penetration in Virginia, and we hope the FCC can continue these plans and improve them where advisable. We believe that continuing these plans is consistent with the Telecommunications Act of 1996 (Act).

We urge the FCC to ignore the advice of those commenters who suggest that a national standard affordable rate should be determined. The overall affordability of telephone service encompasses more than just the basic line rate. It encompasses nonrecurring charges, deposit requirements, directory assistance charges and call allowances, usage charges, and more. All of these rates and charges exist in a structure that each state commission has built over many years, with input from LECs, customers, and many others. Comparing any one part of this structure between states is invalid and misleading, and trying to find one national rate that would affordably fit the structure in all states is impossible.

Universal service affordability, of necessity, is an issue that ultimately must be solved by the states. The FCC could make its best contribution by avoiding SLC

increases, continuing the low-income customers' plans, and directing support to high-cost areas in the most effective and efficient way.

### **3. SUBSCRIBER LINE CHARGES (SLCs)**

There is no compelling reason to set a SLC equal to the common line costs resulting from any embedded cost allocation. Indeed, SLCs may not now have any reason even to exist. SLCs were created in a rate of return regulatory environment, as a means to facilitate interstate toll rate reductions by redistributing the interstate common line cost burden away from usage charges toward fixed charges. That purpose has been served, and those days are gone.

The Telecommunications Act of 1996 has established a new national universal service policy which highlights affordable rates. Any role SLCs may play in implementing this policy is unclear.

### **4. ANALYSIS OF LOOP COSTS IN IDENTIFYING HIGH-COST AREAS**

Existing embedded costs of loops are not relevant to the identification of high-cost areas worthy of universal service subsidies. These costs are useful in studying and explaining the cost history of an area, but they cannot be used to establish a definite subsidy level. To do so could institutionalize and perpetuate inefficiencies, such as situations where the current provider has high loop costs due only to inefficiency. Granting a subsidy in this situation could permit the current provider to price its services below true economic costs and foreclose competitive entry. The costs that are relevant to

determining the need for, and amount of, a subsidy are the forward-looking costs of an efficient provider under the conditions of the area being studied.

The use of proxy cost models should be avoided, particularly when the costs are being determined for small geographic areas, such as Census Block Groups. The broad assumptions and estimates necessarily used as inputs to proxy cost models can create gross errors when applied to small, specific areas. These inputs are necessarily broad averages and they apply only by coincidence to any small, specific area.

**5. CONCLUSION**

This proceeding on universal service involves many detailed, difficult analyses and decisions. We respectfully submit these Reply Comments as the best we have to offer under existing time constraints in our effort to help the Joint Board and FCC achieve the important objective of universal service.

Respectfully submitted,

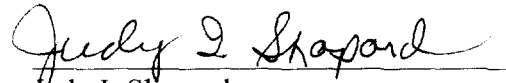
A handwritten signature in black ink, appearing to read "E. C. Addison", written in a cursive style.

Edward C. Addison, Director  
Division of Communications  
Virginia State Corporation Commission

May 6, 1996

## CERTIFICATE OF SERVICE

I, Judy I. Shapard, do hereby certify that a copy of the foregoing was mailed to the following parties on May 6, 1996.

  
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